

RICHMOND BEHAVIORAL HEALTH AUTHORITY  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002

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ROBINSON, FARMER, COX ASSOCIATES

*A Professional Limited Liability Company*

CERTIFIED PUBLIC ACCOUNTANTS



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/// CHARLOTTESVILLE    /// RICHMOND    /// STAUNTON    /// CHRISTIANBURG

**RICHMOND BEHAVIORAL HEALTH AUTHORITY**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

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# **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

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## **BOARD OF DIRECTORS**

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Samuel F. Lillard, Chair

Sandra Fowler-Jones, Vice Chair

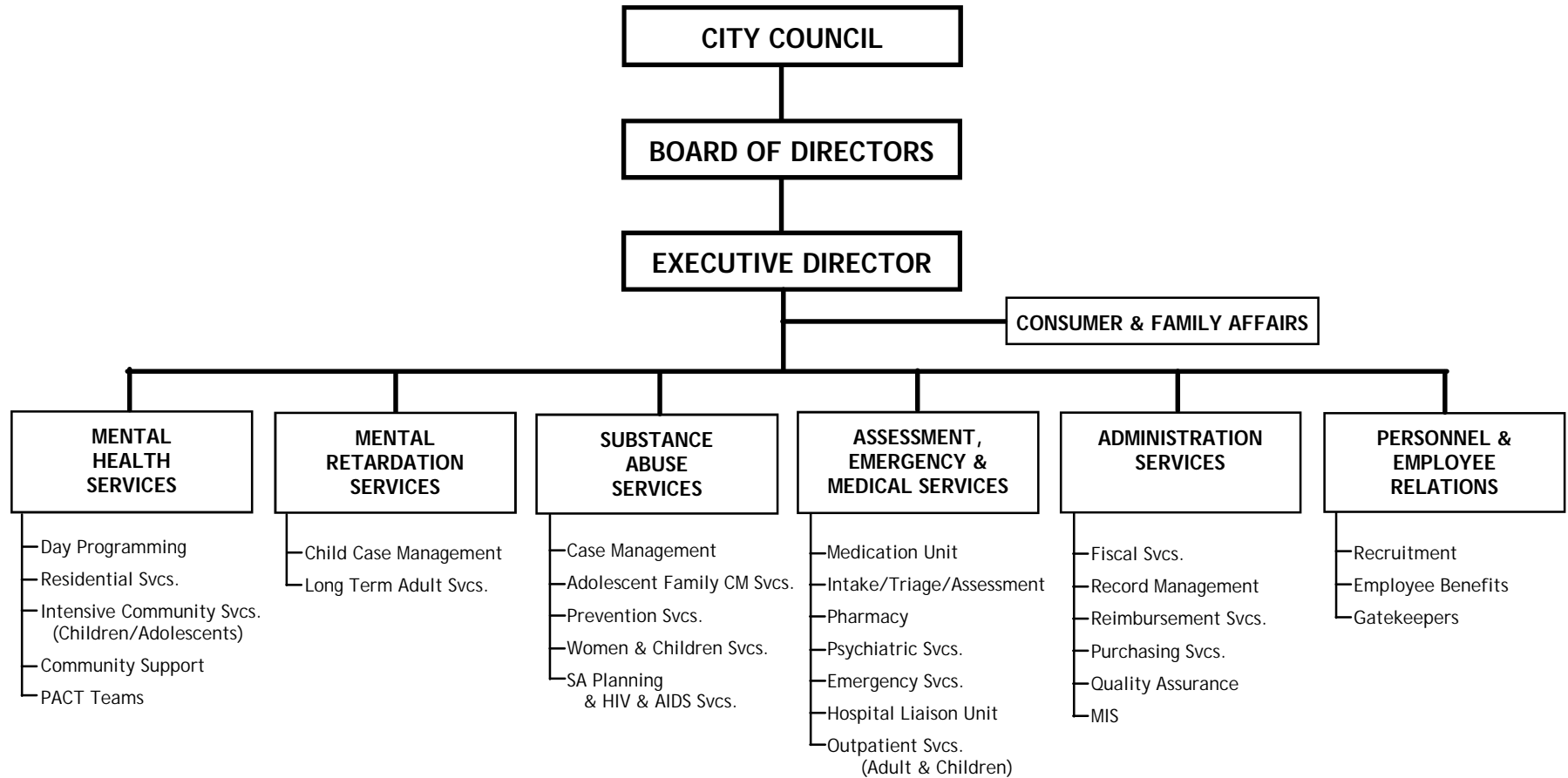
Cynthia O. Barnes	Leslie Herdegen
William T. Beverly, M.S.W.	Edwin T. Lewis, Jr.
Roy Bryant	Alexander M. Macaulay
Denise P. Dickerson	Rev. Delores McQuinn
Andrew C. Epps, III	Dr. Adelaide W. Simpson
Michael A. Evans	H. Gray Wyatt
Ellen Hall	

## **PRINCIPAL MANAGEMENT TEAM**

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Dr. Steven J. Ashby . . . . .	Executive Director
Beth Rafferty . . . . .	Director of Mental Health Services
John P. Lindstrom, Ph.D. . . . .	Director of Assessment, Emergency & Medical Services
James C. May, Ph.D. . . . .	Director of Substance Abuse Services
Michael Parker . . . . .	Human Resources Manager
Michael Joseph . . . . .	Director of Administration
Bonita B. Bell, LCSW . . . . .	Director of Mental Retardation Services

**ORGANIZATIONAL CHART  
RICHMOND BEHAVIORAL HEALTH AUTHORITY**



# ROBINSON, FARMER, COX ASSOCIATES

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*Certified Public Accountants*

*A Professional limited liability company*

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## INDEPENDENT AUDITORS' REPORT

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**TO THE BOARD OF DIRECTORS  
RICHMOND BEHAVIORAL HEALTH AUTHORITY  
RICHMOND, VIRGINIA**

We have audited the accompanying general-purpose financial statements of Richmond Behavioral Health Authority, as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Richmond Behavioral Health Authority's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2001 financial statements, dated September 13, 2001, and we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Standards for Audits of Authorities, Boards and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 17, the Authority has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2002.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Richmond Behavioral Health Authority, as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2002 on our consideration of the Richmond Behavioral Health Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Richmond Behavioral Health Authority, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information and other supplemental schedules have been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

We have not audited the other information which details information about the computer system and client statistics.

*Robinson, Jaeger, Cox Associates*

Charlottesville, Virginia  
September 25, 2002



## **Richmond Behavioral Health Authority**

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107 South Fifth Street  
Richmond, Virginia 23219-3825  
Tel: (804) 819-4000

### **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

Management Discussion and Analysis

Year Ended June 30, 2002

Page 1

Our discussion and analysis of the Richmond Behavioral Health Authority's financial performance provides an overview of the RBHA's financial activities for the fiscal year ended June 30, 2002. Please read this information in conjunction with the RBHA's financial statements.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The RBHA presents three basic financial statements. These are: (1) a Balance Sheet; (2) a Statement of Revenues, Expenses and Changes in Net Assets; and, (3) a Statement of Cash Flows.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information is reported on the Balance Sheet, which reflects RBHA's assets in relation to its debts to its suppliers, employees and other creditors. The excess of our assets over liabilities is our equity, or net assets.

Information regarding the results of our operation during the year is reported in the Statement of Revenues, Expenses and Changes in Net Assets. This statement shows how much our overall net assets increased or decreased during the year as a result of our operations and for other reasons.

Our Statement of Cash Flows discloses the flow of cash resources into and out of RBHA during the year (from operations, contributions and other sources) and how we applied those funds (for example, payment of expenses, repayment of debt, purchases of new property, etc.).

# **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

## **Management Discussion and Analysis**

**Year Ended June 30, 2002**

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### **FINANCIAL SUMMARY**

**Financial Position.** A summary of RBHA's Balance Sheet for 2001 and 2002 is presented below:

#### **Condensed Balance Sheet**

	2002	2001
Current Assets	\$3,829,755	\$5,062,783
Property and Equipment	<u>1,213,729</u>	<u>853,535</u>
TOTAL ASSETS	\$5,043,484	\$5,916,318
Current Liabilities	\$1,567,570	\$2,252,141
Long Term Liabilities	<u>609,293</u>	<u>546,036</u>
TOTAL LIABILITIES	\$2,176,863	\$2,798,177
Net Assets:		
Invested in Capital Assets	\$1,213,729	\$ 853,535
Unrestricted	<u>1,652,892</u>	<u>2,264,606</u>
TOTAL NET ASSETS	<u>\$2,866,621</u>	<u>\$3,118,141</u>
TOTAL NET ASSETS AND LIABILITIES	\$5,043,484	\$5,916,318

The financial position of the Richmond Behavioral Health Authority is strong. This is evidenced by our strong liquidity and the absence of long-term debt. The Quick Ratio (Current Assets/Current Liabilities) of the Authority was 2.25:1 in as of June 30, 2001. On June 30, 2002, the Quick Ratio was 2.44:1. This increase in liquidity was due to the successful efforts of the Authority to reduce Accounts Payable in FY 2002. This was accomplished while Net Capital Assets (Capital Assets less Depreciation) increased more than 40%. The increase in Net Capital Assets is largely the result of Information Technology equipment purchases and replacement of aging vehicles.

# **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

## **Management Discussion and Analysis**

**Year Ended June 30, 2002**

**Page 3**

**Change in net assets.** A summary of the Richmond Behavioral Health Authority's statement of revenues, expenses and changes in net assets for 2001 and 2002 is presented below.

### **Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	2002	2001
Operating Income	\$ 9,656,304	\$ 9,317,605
Operating Expenses	<u>25,823,996</u>	<u>24,880,308</u>
Operating Income	\$ (16,167,602)	\$(15,562,703)
Non-Operating Income	<u>15,916,082</u>	<u>15,510,926</u>
Changes in Net Assets	\$ ( 251,520)	\$ ( 51,777)

Operating Income is defined as the amount of revenue received from providing patient services. The vast majority of those funds-approximately 77%- are received from Medicaid. (Please see Note 13). During 2002, Operating Income increased 3.6%.

Operating Expenses are comprised of the direct expenses of operating the Authority. These include Salaries and Benefits, Occupancy, Payments to contracting agencies and Depreciation. (Please see the full Statements of Revenues, Expenses and Changes in Net Assets for a complete breakdown of these expenses for 2001 and 2002.) During 2002, Operating Expenses also increased approximately 3.8%.

Non-operating Income is comprised of income received as appropriations or grants as well as Miscellaneous Income. Appropriations from the State of Virginia constitute 58% of the Non-operating Income while grants from the Federal Government constitute 31% and appropriations for the City of Richmond constitutes 10%. The remaining Non-operating income (1%) consists largely of Interest Income. Non-operating Income increased 2.6% in 2002.

Net Assets declined \$251,520 in 2002 or .9% of total revenues and income in 2002. A component of this reduction in Net Assets was the increase in Depreciation, a non-cash entry, from \$297,708 to \$392,118 as well as the decline in Interest from \$163,646 to \$73,168.

# **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

## **Management Discussion and Analysis**

**Year Ended June 30, 2002**

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**Cash flows.** A summary of the Richmond Behavioral Health Authority's statements of cash flows for 2001 and 2002 are presented below:

### **Condensed Statement of Cash Flows**

	2002	2001
Cash flows from operating activities	\$ (16,380,876)	\$ (15,132,480)
Cash flows from non-capital activities	15,842,914	15,347,280
Cash flows from capital activities	(752,312)	(399,259)
Cash flows from investing activities	<u>73,168</u>	<u>163,646</u>
Net Decrease in Cash	\$ ( 1,217,106)	\$ ( 20,893)
Cash- Beginning of Year	\$ 3,090,889	\$ 3,111,702
Cash-End of Year	\$ 1,873,783	\$ 3,090,889

Cash flows from operating activities reconcile the Operating Loss recorded on the Statement of Revenues, Expenses and Changes in Net Assets to cash provided by operating activities. In this process, the Operating Loss is decreased by the amount of any non-cash transaction (Depreciation) and adjusted for changes in assets and liabilities. (Please see the full Statement of Cash Flows for a full listing of these transactions.) Of these adjustments, Accounts Payable declined \$1,118,108 while Pharmacy Inventory increased \$168,437 and Amount Held for Others (Acute Care Program) increased \$351,537.

Cash flows from non-capital transactions are comprised of income received as appropriations or grants (Please see Statements of Revenues, Expenses and Changes in Net Assets discussion above.). Cash flows from capital activities are comprised of all the Capital Assets purchased by the Richmond Behavioral health Authority in 2002. (Please see Note 4 for a full listing of Fixed Assets.) Cash flows from investing activities are comprised of Interest Income.

During 2002, there was a decrease of \$1,217,106 in cash. This was due largely to the management decision of the Richmond Behavioral Health Authority to reduce its high level of Accounts Payable. As noted above, these were reduced by \$1,118,108. The remaining change in cash is a result of a number of factors including the decision to increase Pharmacy Inventory by \$168,437.

## **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

Management Discussion and Analysis

Year Ended June 30, 2002

Page 5

### **Capital Asset and Debt Administration**

#### **Capital Assets**

At the end of 2002, the Richmond Behavioral Health Authority had \$1,213,729 in Net Fixed Assets. This is comprised of \$2,666,908 in Fixed Assets less \$1,453,179 in Accumulated Depreciation. (Please see Note 4). Of the total Furniture and Equipment (including Information Technology assets) constitute 65%, Vehicles constitute 32% while Leasehold Improvements constitute 3%.

As noted above, over \$750,000 of Capital Assets were purchased in 2002. It is expected that the amount of Capital Assets purchased in 2003 will be significantly less than the 2002 purchases. It is anticipated that capital purchases in 2003 will be less than \$250,000.

#### **Long-Term Debt**

As stated in Note 10, the Richmond Behavioral health has a Line of Credit Agreement with B B & T. That Line of Credit was not used at all during 2002.

#### **Summary**

The Balance Sheet shows that, on June 30, 2002, the Authority had 2.44 times more Current Assets than Current Liabilities. In addition, we had no Long Term Debt and \$2,866,621 in Total Equity.

The Statement of Revenues, Expenses and Changes in Net Assets show the net assets of the Authority decreased \$251,520 during 2002 as a result of our operations.

Our Statement of Cash Flows shows that cash declined \$1,217,106 in 2002 while Accounts Payable declined \$1,118,108 and Pharmacy Inventory increased \$168,437 and Amount Held for Others increased \$351,537.

As stated above, the financial position of the Richmond Behavioral Health Authority is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This strong liquidity and lack of debt shows our financial position to be strong and secure.

**- General-Purpose Financial Statements -**

**RICHMOND BEHAVIORAL HEALTH AUTHORITY**

**Statement of Net Assets  
At June 30, 2002  
(With Comparative Totals for 2001)**

	<u>2002</u>	<u>2001</u>
<b>ASSETS</b>		
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 1,873,783	\$ 3,090,889
Accounts receivable, less allowance for uncollectibles	1,729,347	1,850,319
Prepaid items	3,846	67,233
Pharmacy inventory	<u>222,779</u>	<u>54,342</u>
Total current assets	\$ 3,829,755	\$ 5,062,783
<u>Property and Equipment:</u>		
Property and equipment, less accumulated depreciation	<u>1,213,729</u>	<u>853,535</u>
Total assets	<u>\$ 5,043,484</u>	<u>\$ 5,916,318</u>
<b>LIABILITIES AND NET ASSETS</b>		
<u>Current Liabilities:</u>		
Accounts payable and accrued expenses	\$ 759,767	\$ 1,877,875
Amounts held for others	725,803	374,266
Deferred revenue	<u>82,000</u>	<u>-</u>
Total current liabilities	\$ 1,567,570	\$ 2,252,141
<u>Long-term Liabilities:</u>		
Employee accrued leave	<u>609,293</u>	<u>546,036</u>
Total liabilities	<u>\$ 2,176,863</u>	<u>\$ 2,798,177</u>
<u>Net Assets:</u>		
Invested in capital assets	\$ 1,213,729	\$ 853,535
Unrestricted	<u>1,652,892</u>	<u>2,264,606</u>
Total equity	<u>\$ 2,866,621</u>	<u>\$ 3,118,141</u>
Total liabilities and net assets	<u>\$ 5,043,484</u>	<u>\$ 5,916,318</u>

The accompanying notes to financial statements are an integral part of this statement.

**RICHMOND BEHAVIORAL HEALTH AUTHORITY**

**Statement of Revenues, Expenses and Changes in Net Assets**

**Year Ended June 30, 2002**

**(With Comparative Totals for 2001)**

	<u>2002</u>	<u>2001</u>
<b>Operating Revenue:</b>		
Net patient service revenue	\$ 9,656,394	\$ 9,317,605
<b>Expenses:</b>		
Salaries and benefits	\$ 11,518,581	\$ 10,642,482
Staff development	123,860	103,791
Occupancy	1,573,709	1,285,385
Supplies	459,866	466,210
Travel	284,388	280,354
Medical and professional services	4,102,602	2,051,775
Direct client support	1,620,092	3,906,567
Payments to contracting agencies	5,561,326	5,709,315
Depreciation	392,118	297,708
Other	187,454	136,721
Total expenses	\$ 25,823,996	\$ 24,880,308
Operating income (loss)	\$ (16,167,602)	\$ (15,562,703)
Nonoperating income:		
Appropriations:		
Commonwealth of Virginia	\$ 9,274,554	\$ 9,114,256
Federal government	4,924,212	4,487,223
City of Richmond	1,580,141	1,592,051
Interest income	73,168	163,646
Other	64,007	153,750
Total nonoperating income	\$ 15,916,082	\$ 15,510,926
Change in net assets	\$ (251,520)	\$ (51,777)
Net assets, beginning of year	3,118,141	3,169,918
Net assets, end of year	\$ 2,866,621	\$ 3,118,141

The accompanying notes to financial statements are an integral part of this statement.

**RICHMOND BEHAVIORAL HEALTH AUTHORITY**

**Statement of Cash Flows**  
**Year Ended June 30, 2002**  
**(With Comparative Totals for 2001)**

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Receipts from customers	\$ 9,423,927	\$ 8,552,183
Payments to suppliers	(13,600,252)	(14,015,511)
Payments to and for employees	(12,204,551)	(9,669,152)
Total cash flows from operating activities	\$ (16,380,876)	\$ (15,132,480)
Cash flows from noncapital and related financing activities:		
Government grants	\$ 15,778,907	\$ 15,193,530
Other	64,007	153,750
Total cash flows from noncapital and related financing activities	\$ 15,842,914	\$ 15,347,280
Cash flows from capital and related financing activities:		
Purchase of capital assets	\$ (752,312)	\$ (399,259)
Cash flows from investing activities:		
Interest income	\$ 73,168	\$ 163,646
Net increase (decrease) in cash and cash equivalents	\$ (1,217,106)	\$ (20,813)
Cash and cash equivalents, beginning of year	3,090,889	3,111,702
Cash and cash equivalents, end of year	\$ <u>1,873,783</u>	\$ <u>3,090,889</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (16,167,602)	\$ (15,562,703)
Adjustments to reconcile excess of revenues over expenses to cash provided by operations:		
Depreciation	392,118	297,708
Changes in assets and liabilities:		
Accounts receivable	120,972	436,529
Prepaid items	63,387	104,940
Pharmacy inventory	(168,437)	(10,679)
Accounts payable and accrued expenses	(1,118,108)	332,104
Amounts held for others	351,537	171,941
Compensated absences	63,257	(30,555)
Deferred revenue	82,000	(871,765)
Cash flows from (to) operating activities	\$ <u>(16,380,876)</u>	\$ <u>(15,132,480)</u>

The accompanying notes to financial statements are an integral part of this statement.

# **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

## **Notes to Financial Statements As of June 30, 2002**

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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#### **A. Organization and Purpose:**

The Richmond Behavioral Health Authority (the Authority) was created on July 1, 1996, to provide behavioral health services to residents of the City of Richmond under Sections 15.1-1676 of the *Code of Virginia* (1950), as amended. Prior to July 1, 1996, the operations of the Authority were conducted by the City of Richmond's (the City) Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department) and accounted for as a Special Revenue Fund of the City of Richmond. In July 1996, the City passed a resolution creating the Richmond Behavioral Health Authority in accordance with the recently enacted Sections 15.1-1676 of the *Code of Virginia* (1950), as amended. Pursuant to a transfer agreement between the City and the Authority, the City transferred certain assets and liabilities to the Authority.

The Board of Directors of the Authority is appointed by the City of Richmond. The City provides funding to the Authority that satisfies match requirements for state grant funding. Accordingly, the Authority is deemed to be a component unit of the City of Richmond.

#### **B. Enterprise Fund Accounting:**

The Richmond Behavioral Health Authority is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the Authority utilizes the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

#### **C. Use of Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **D. Cash and Cash Equivalents:**

Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash on hand, checking and savings accounts, and short-term, highly liquid investments (including repurchase agreements) with original maturities of three months or less. The Authority maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the *Code of Virginia*. The Act requires financial institutions to meet specific collateralization requirements.

## **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

### **Notes to Financial Statements As of June 30, 2002 (Continued)**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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E. Investments:

Investments are reported at fair value.

F. Net Client Service Revenue:

Net client service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

G. Financial Assistance:

The Authority is required to collect the cost of services from third party sources and those individuals who are able to pay. However, the payment of amounts charged is based on individual circumstances and unpaid balances are pursued to the extent of the client's ability to pay. The Authority has established procedures for granting financial assistance in cases of hardship. The granting of financial assistance results in a substantial reduction and/or elimination of charges to individual clients. Because the Authority does not pursue the collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

H. Accounts Receivable - Client Services:

Revenue and related receivables for health care services are recorded at the Authority's full established rates. Amounts receivable from third-party payors for health care services are usually less than the Authority's full established rates. The realizable amounts are generally determined by contractual agreements with the third party payor (e.g. Medicaid). The provision for contractual adjustments (difference between established rates and third-party payor payments) and discounts (difference between established rates and amounts collectible) are deducted from gross accounts receivable to determine accounts receivable - net client services.

I. Capital Assets:

Capital assets acquired are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset ranging from 5 to 20 years and is computed using the straight-line method. Donated capital assets are recorded at their estimated fair market value at the time of the gift.

J. Restricted Assets:

The Authority segregates monies held on behalf of third parties and restricted donations which have not yet been totally expended for their intended purposes.

## **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

### **Notes to Financial Statements**

**As of June 30, 2002 (Continued)**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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K. Inventories:

Inventories consist of pharmacy medicines and supplies and are valued at cost on a first-in first-out basis.

L. Compensated Absences:

The Authority's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service. All employees earn the same sick pay rate regardless of the length of service. Maximum annual leave accumulation hours are the hours allowable at the time of separation or at the end of any calendar year.

Employees terminating their employment are paid, by the Authority, their accumulated annual leave up to the maximum limit. Unused sick leave is not paid at the date of separation.

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences*. Accordingly, the amount of annual leave recognized as expense is the amount earned during the year.

M. Statement of Cash Flows:

For the purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including repurchase agreements) with a maturity of three months or less when purchased to be cash equivalents.

N. Budgetary Accounting:

The Authority follows these procedures in establishing its budgets.

1. In response to Letters of Notification received from the Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department), the Authority submits a Performance Contract to the Department no later than June 18. This application contains budgets for core services.
2. Prior to September 1, the Performance Contract is submitted to the City of Richmond for review.
3. The Authority's Performance Reports are filed with the Department during the fiscal year, 45 working days after the end of the second and third quarters. The final quarterly report is due by September 15 (unless extended), following the end of the fiscal year.
4. If any changes are made during the fiscal year in state or federal block grants, or local match funds, the Authority submits Performance Contract revisions that reflect these changes in time to be received by the Department by May 26.

# **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

## **Notes to Financial Statements As of June 30, 2002 (Continued)**

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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#### **O. Comparative Totals:**

Comparative amounts for the prior year are presented for informational purposes only. Certain reclassifications have been made to the prior year amounts to provide a more comparable presentation with the current year financial reporting presentation.

### **NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS:**

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Cash and cash equivalents were comprised of the following:

Petty cash . . . . .	\$	497
Demand deposits . . . . .		<u>1,873,286</u>
Total . . . . .	\$	<u><u>1,873,783</u></u>

#### **A. Deposits:**

The Authority's cash deposits are covered by Federal depository insurance. Deposits in excess of Federal depository insurance limits are insured in accordance with provisions of the Virginia Security for Public Deposits Act. The Act requires financial institutions holding public deposits in excess of amounts covered by Federal insurance to pledge collateral in the amount of 50% of excess deposits.

#### **B. Investments:**

State statutes authorize local governments and other public bodies to invest in obligations of the United States, its agencies and instrumentalities, time certificates of deposit, bankers' acceptances, repurchase agreements, demand notes, and commercial paper.

Investments, including repurchase agreements, are categorized to indicate the level of risk assumed by the Authority. Category 1 includes investments that are insured and registered or for which the securities are held by the entity or the entity's agent in the entity's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or its agent in the entity's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent, but not in the entity's name.

The Authority had no investments at June 30, 2002.

The Authority does not involuntarily participate in external investment pools.

## **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

### **Notes to Financial Statements As of June 30, 2002 (Continued)**

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#### **NOTE 3 - ACCOUNTS RECEIVABLE:**

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At June 30, 2002 the Authority had accounts receivable due from the following primary sources.

Virginia Department of Medical Assistance Services (Medicaid) . .	\$	824,643
Direct client and third party . . . . .		456,836
Other . . . . .		<u>614,435</u>
Total . . . . .	\$	1,895,914
Less: Allowance for uncollectibles . . . . .		<u>(166,567)</u>
Net accounts receivable . . . . .	\$	<u><u>1,729,347</u></u>

Other than the amounts due for medicaid charges, there are no other individually significant sources of receivables.

#### **NOTE 4 - FIXED ASSETS:**

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Fixed assets are comprised of the following:

Furniture and equipment . . . . .	\$	1,731,471
Vehicles . . . . .		853,294
Leasehold improvements . . . . .		<u>82,143</u>
	\$	2,666,908
Less accumulated depreciation . . . . .		<u>1,453,179</u>
Net fixed assets . . . . .	\$	<u><u>1,213,729</u></u>

#### **NOTE 5 - RELATED PARTIES:**

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The Authority was created by the City of Richmond on July 1, 1996. During the year ended June 30, 2002, the Authority paid the City of Richmond \$131,256 for routine services including vehicle maintenance, telecommunications, duplicating, and other services. The City of Richmond also contributed \$1,580,141 in local funds during the year ended June 30, 2002 to support the provision of behavioral health services to City residents. Also, as discussed in Note 11, Retirement Plan, the Authority participates in the City's retirement system and paid contributions to that plan.

#### **NOTE 6 - CONTRACT AGENCIES:**

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The Authority has entered in numerous agreements with various nonprofit and other entities to provide specific program services under purchase of service contracts. Payments under purchase of service agreements amounted to \$5,321,792 for the year ended June 30, 2002.

## **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

### **Notes to Financial Statements As of June 30, 2002 (Continued)**

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#### **NOTE 7 - DEFERRED REVENUE:**

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Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts are measurable, but not available.

At June 30, 2002, there was \$82,000 in deferred revenue as a result of advanced grant funding. Advanced grant funding occurs when grant funds are not fully expended in accordance with the grant or contractual agreement at year end. The liability is reduced and revenue recorded when expenditures are eventually made. If expenditures are not made, the funds may revert back to the grantor.

#### **NOTE 8 - CONTINGENCIES:**

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##### **A. Grants:**

The Richmond Behavioral Health Authority operates programs that are typically funded by grants received from federal, state or local sources. Expenditures financed by grants are subject to audit by the grantor. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantor. The Authority believes that the likelihood of disallowance of expenditures and subsequent reimbursement is remote and would not have a material effect on the overall financial position of the Authority.

##### **B. Legal / Litigation:**

The Authority may be involved in potential lawsuits arising in the ordinary course of business. It is management's belief that any liability resulting from such lawsuits would not be material in relation to the Authority's financial position.

#### **NOTE 9 - OPERATING LEASES:**

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The Authority leases offices, clinics and apartments for residential programs under various lease agreements. Lease expense for the year ended June 30, 2002, amounted to \$1,337,805.

At June 30, 2002, the approximate annual operating lease commitments (exclusive of Consumer Price Index amounts) are as follows:

<u>Year Ending June 30,</u>	
2003 . . . . .	\$ 1,318,203
2004 . . . . .	1,132,272
2005 . . . . .	1,116,003
2006 . . . . .	1,116,003
2007 . . . . .	1,116,003
2008 . . . . .	<u>651,002</u>
Total minimum lease payments . . . . .	<u>\$ 6,449,486</u>

## **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

### **Notes to Financial Statements**

**As of June 30, 2002 (Continued)**

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#### **NOTE 10 - LINE OF CREDIT:**

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The Authority has a \$1,000,000 line of credit agreement with a financial institution. Borrowings are unsecured, payable on demand and pay interest based on the London Inter Bank Offered Rate (LIBOR) plus 1.25%. The line of credit commitment expires January 31, 2003. The Authority did not have an outstanding balance under the line of credit at June 30, 2002.

#### **NOTE 11 - RETIREMENT PLAN:**

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##### **C. Plan Description:**

The City of Richmond maintains a single-employer, defined benefit pension plan, Richmond Retirement System (RRS) (the Plan), which covers substantially all Authority employees. Prior to the creation of the Authority on July 1, 1996, substantially all employees were City of Richmond employees and pursuant to the Agreement of Transfer, Authority employees continue to be members of the RRS. The Authority's total covered payroll for the year ended June 30, 2002 was \$4,883,769.

The Plan provides retirement benefits as well as disability benefits. All permanent full time employees must participate in RRS. All benefits vest after 5 years of credited service. A member is eligible for normal retirement on his normal retirement date. Upon service retirement, a member becomes eligible to receive an annual allowance payable in equal monthly installments. The annual allowance is an amount equal to 1.75% of the member's average final compensation multiplied by the number of years of creditable service, up to 35 years. This supplement ceases at age 65. The Plan permits early retirement.

Employees with 30 years of service may retire at any age with unreduced benefits. Employees may retire at age 55 with 5 or more years of service; however, in this instance the benefit will be reduced by 5-1/2% for each complete month by which retirement precedes the earlier of age 65 or the date on which the employee would have completed 30 years of service.

Employees make no contribution to the Plan. The Authority's contribution, authorized by the Board of Directors is actuarially determined and consists of current costs and amortization of prior service costs over a 20-year period.

##### **D. Contributions and Funding Policy:**

The Authority is required to contribute to the Plan, annually, an amount as determined by the actuary (expressed as a percentage of payroll) equal to the sum of the "normal contribution" and the "accrued liability contribution". The accrued liability contribution is determined as that amount necessary to amortize the unfunded actuarial accrued liability and any increase or decrease in the unfunded actuarial accrued liability in future years due to changes in actuarial assumptions, changes in the Plan provisions (including the granting of cost-of-living increases) or actuarial gains or losses amortized over a period of 20 years with payment. During the year ended June 30, 2002, the Authority contributed \$699,361 in accordance with contribution requirements determined by an actuarial valuation of the Plan, as of June 30, 2001.

# **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

## **Notes to Financial Statements As of June 30, 2002 (Continued)**

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### **NOTE 11 - RETIREMENT PLAN: (Continued)**

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#### **B. Contributions and Funding Policy: (Continued)**

The following is a schedule of the Authority's contributions for the three fiscal years ended June 30, 2000 through 2002:

<u>Fiscal Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
2000 . . . . .	\$ 721,527	100%
2001 . . . . .	646,032	100%
2002 . . . . .	699,361	100%

The unfunded accrued liability is determined as the excess, if any, of the actuarial liability determined under the projected unit credit cost method over the actuarial value of assets. This unfunded accrued liability, and any changes in unfunded accrued liability due to changes in benefit provisions, actuarial gains and losses, and changes in methods and/or assumptions is amortized over a period of 20 years.

#### **C. Actuarial Method and Significant Assumptions:**

The actuarial cost method utilized is the projected unit credit actuarial cost method. This method is an acceptable method for determining the annual required contribution in accordance with Governmental Accounting Standards Board Statement No. 25 "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*". For purposes of determining contribution rates, the net realized and unrealized appreciation or depreciation in the market value of assets is recognized over a three year period, with the restriction that the actuarial asset value cannot be less than 90% or greater than 110% of the market value of assets. For purposes of determining the Plan's funded status and other required disclosures, assets are valued at market.

Significant actuarial assumptions used in determining the actuarial accrued liability include: (a) a rate of return on the investment of present and future assets of 8.0% per annum compounded annually, (b) projected salary increases ranging from approximately .5% to 4.00% per year. Salary increases include a 2.5% component for inflation and a variable component for merit increases, and (c) the assumption that benefits will not increase after retirement.

#### **D. Schedule of Funding Progress:**

A Schedule of Funding Progress is intended to help users assess the funded status of the Plan and the progress made in accumulating sufficient assets to pay benefits when due. Schedule information for Authority employees is not available. This information is as follows for City employees:

# RICHMOND BEHAVIORAL HEALTH AUTHORITY

## Notes to Financial Statements As of June 30, 2002 (Continued)

### NOTE 11 - RETIREMENT PLAN: (Continued)

#### D. Schedule of Funding Progress: (Continued)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Projected Unit Credit)	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a % of Covered Payroll
6-30-95	\$ 270,490,885	\$ 348,833,284	\$ 78,342,399	77.5%	\$ 131,918,022	59.39%
6-30-96	310,169,773	367,119,515	56,949,742	84.5%	128,683,173	44.26%
6-30-97	360,005,684	421,861,053	61,855,369	85.3%	136,070,924	45.46%
6-30-98	412,971,217	462,219,904	49,248,687	89.4%	140,165,513	35.14%
6-30-99	465,103,794	490,583,194	25,479,400	94.81%	142,065,283	17.93%
6-30-00	527,666,622	534,981,233	7,314,611	98.6%	154,573,238	4.73%
6-30-01	467,662,106	569,347,610	101,685,504	82.1%	158,111,509	64.31%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage is, the stronger the Plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage is, the stronger the Plan.

#### E. Concentrations:

The Plan does not have investments (other than U. S. Government and agency obligations) in any one organization that represent 5% or more of net assets held in trust for pension benefits.

### NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS:

In addition to the pension benefits described in Note 11, the Authority pays a portion of the cost of health-related insurance benefits to all employees who retire from the Authority. The benefits comprise health-related group insurance policies through which retirees, their spouses, and eligible unmarried dependents can obtain coverage. Retirees totaling 22, their spouses, and eligible unmarried dependents were receiving such benefits at June 30, 2002. The Authority's share of health-related premium contributions for the year ended June 30, 2002 was \$22,954. The Authority's share of contributions was charged to expense based on premium cost allocable to the fiscal year period. There were no other changes in the benefit provisions during the fiscal year ended June 30, 2002.

# **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

## **Notes to Financial Statements**

**As of June 30, 2002 (Continued)**

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### **NOTE 13 - CLIENT FEES:**

Net patient service revenues were from the following sources:

Medicaid . . . . .	\$ 7,421,302
Direct client . . . . .	23,681
Third party . . . . .	203,353
Other . . . . .	<u>2,008,058</u>
Total . . . . .	<u>\$ 9,656,394</u>

### **NOTE 14 - RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority participates in a self-insured liability plan sponsored by the state of Virginia for local political subdivisions. The plan provides \$1,000,000 coverage against public official liability claims. The Authority participates in the Virginia Municipal Liability Pool for comprehensive property and casualty coverage, a general liability coverage (claims made), automobile coverage and employer's liability. The Authority also is a member of the Virginia Municipal Group Self Insurance Association and obtains workers compensation coverage for Authority employees. Certain other risks are covered by commercial insurance policies. Management believes the above-described coverage is sufficient to preclude any significant uninsured losses to the Authority.

### **NOTE 15 - SURETY BOND INFORMATION:**

The Authority is insured under a commercial public officials policy in the amount of \$100,000 that indemnifies the insured against loss of money or property that might result from the fraudulent or dishonest acts of its employees.

### **NOTE 16 - ACUTE CARE PROGRAM:**

The Authority is the fiscal agent for the Acute Care Program which is funded by state appropriations. The Authority disburses funds received from the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services for program expenses of the multi-jurisdictional consortium consisting of the Authority and Community Services Boards in the region. The amount of these revenues and expenses for fiscal year 2002 were as follows:

Revenues . . . . .	\$ <u>2,115,310</u>
Expenses . . . . .	<u>\$ 2,115,310</u>

Unexpended program funds are reported as liabilities.

## **RICHMOND BEHAVIORAL HEALTH AUTHORITY**

### **Notes to Financial Statements**

**As of June 30, 2002 (Continued)**

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#### **NOTE 17 - CHANGE IN FINANCIAL REPORTING:**

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In fiscal year 2002 the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Authority was required to implement certain financial reporting changes required by GASB 34 in fiscal year 2002 because the City of Richmond, Virginia includes the Authority in its Comprehensive Annual Financial Report as a component unit. The effect of the changes to the Authority's financial statements primarily required certain grant revenues to be reported as nonoperating rather than operating revenues. Also, as disclosed in Note 1 - Section O, amounts from the prior year have been reclassified to the current year presentation.

**- Supporting Schedules -**

# RICHMOND BEHAVIORAL HEALTH AUTHORITY

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2002

<u>Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expendi- tures</u>
<u>Department of Health and Human Services</u>		
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
Projects for Assistance in Transition to Homeless (PATH)	93.150	\$ 54,014
HIV Counselors	93.188	29,768
Temporary Assistance to Needy Families	93.558	144,196
Child Care Block Grant	93.575	126,740
Mental Health Block Grant	93.958	455,872
Substance Abuse Prevention and Treatment Block Grant	* 93.959	3,565,671
City of Richmond, Virginia Healthy Start Initiative	93.926	<u>155,361</u>
Total Department of Health and Human Services		\$ <u>4,531,622</u>
<u>Department of Housing and Urban Development</u>		
Pass-Through Payments:		
City of Richmond, Virginia Shelter Plus Care	14.238	<u>392,590</u>
Total Department of Housing and Urban Development		\$ <u>392,590</u>
Total expenditures of federal awards		<u><u>\$ 4,924,212</u></u>

\* Major program

This schedule is presented on the accrual basis of accounting.

**RICHMOND BEHAVIORAL HEALTH AUTHORITY**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2002**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.959	Substance Abuse Prevention and Treatment Block Grant

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

**Section II - Financial Statement Findings**

There are no financial statement findings to report.

**Section III - Federal Award Findings and Questioned Costs**

There are no federal award findings and questioned costs to report.

**RICHMOND BEHAVIORAL HEALTH AUTHORITY**

**Schedule of Prior Year Findings and Questioned Costs  
Year Ended June 30, 2002**

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All prior year findings were addressed and resolved by management.

There were no questioned costs reported.

# RICHMOND BEHAVIORAL HEALTH AUTHORITY

## Schedule of Insurance June 30, 2002

<u>Insurance Carrier</u>	<u>Policy No.</u>	<u>Policy Cost</u>	<u>Insurance Coverage</u>
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	VMLPGL 000473	\$12,119	General and professional liability \$2,000,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241		\$24,350	Automobile liability \$1,000,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241		\$1,667	Excess liability \$1,000,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241		\$1,170	Scheduled property, equipment, boiler, and machinery \$820,907
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241		\$821	Fidelity/crime \$100,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241		\$19,790	Workers Compensation \$1,000,000 per accident \$500,000 disease

**- Other Information -**

## RICHMOND BEHAVIORAL HEALTH AUTHORITY

### Computer Systems

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The following chart illustrates the status of the Board's implementation and some other key information on its computer systems.

Description / Application	Vendor / Name / Model	Notes / Dev. Stage
General Ledger, Accounts Payable, Financial Statements	CMHC	Fully operational
Reimbursement	CMHC	Fully operational
Fixed Assets	Access	Fully operational
Purchasing	CMHC	Fully operational
Hardware	HP Netserver LS4	Fully operational
Operating system	Unix Sco V5 Enterprise	Fully operational
Communication devices	U S Robotics Modem	Fully operational

**RICHMOND BEHAVIORAL HEALTH AUTHORITY**

**Client Statistics**  
**Year Ended June 30,**

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	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Unduplicated Clients Served				
Mental Health	5,993	5,553	8,920	5,303
Mental Retardation	993	1,083	1,007	907
Substance Abuse	3,658	4,365	4,291	3,714
 Mental Health Residential Client Days	 21,190	 25,223	 23,280	 13,016
 Mental Retardation Residential Client Days	 19,625	 16,815	 16,899	 16,630

**- Compliance -**

# ROBINSON, FARMER, COX ASSOCIATES

*Certified Public Accountants*

*A Professional limited liability company*

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE BOARD OF DIRECTORS  
RICHMOND BEHAVIORAL HEALTH AUTHORITY  
RICHMOND, VIRGINIA

We have audited the financial statements of the Richmond Behavioral Health Authority as of and for the year ended June 30, 2002, and have issued our report thereon dated September 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Standards for Audits of Authorities, Boards and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Richmond Behavioral Health Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Richmond Behavioral Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters that were communicated to management in a separate letter dated September 25, 2002.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Robinson, Farmer, Cox Associates*

Charlottesville, Virginia  
September 25, 2002

# ROBINSON, FARMER, COX ASSOCIATES

*Certified Public Accountants*

*A Professional Limited Liability company*

## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**TO THE BOARD OF DIRECTORS  
RICHMOND BEHAVIORAL HEALTH AUTHORITY  
RICHMOND, VIRGINIA**

### **Compliance**

We have audited the compliance of the Richmond Behavioral Health Authority with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The Richmond Behavioral Health Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Richmond Behavioral Health Authority's management. Our responsibility is to express an opinion on Richmond Behavioral Health Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Richmond Behavioral Health Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Richmond Behavioral Health Authority's compliance with those requirements.

In our opinion, the Richmond Behavioral Health Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

### **Internal Control Over Compliance**

The management of Richmond Behavioral Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Richmond Behavioral Health Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Robinson, James, Cox Associate*

Charlottesville, Virginia  
September 25, 2002